

CITY OF GAASTRA

36-2030

**Financial Report
with Supplemental Information
Prepared in Accordance with GASB 34**

June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF GAASTRA	County IRON
Audit Date JUNE 30, 2004	Opinion Date OCTOBER 26, 2004	Date Accountant Report Submitted to State: DECEMBER 28, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended) for the year ended June 30, 2004, in accordance with the *Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X

Certified Public Accountant (Firm Name) DS ROSTAGNO, CPA, P.C.			
Street Address 101 WEST MAPLE STREET	City IRON RIVER	State MI	ZIP 49935
Accountant Signature 		Date DECEMBER 28, 2004	

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INDEPENDENT AUDITOR'S REPORT

DS Rostagno, CPA, P.C.

**101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042**

Honorable Mayor and Members of the City Council
City of Gaastra
Gaastra, Michigan 49927

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of the **City of Gaastra**, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Gaastra** at June 30, 2004, and the respective changes in financial position, and cash flows, where applicable, thereof for the year ended, in conformity with generally accepted accounting principles in the United States of America.

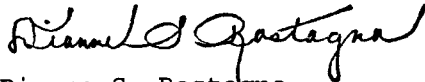
As described in Note 1, the **City of Gaastra** has implemented a new final reporting model, as required by the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 01, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2004, on our consideration of the **City of Gaastra's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 6 through 17 and the budgetary comparison information are not a required part of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements that collectively comprise the City's basic financial statements. The introductory section and the combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 26, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Gaastra

P.O. BOX 218
GAASTRA, MICHIGAN 49927
(906) 266-2141

The management of the **City of Gaastra** provides this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. As readers, you are encouraged to read this discussion and analysis in conjunction with the City's financial statement information included in this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The financial section of this report included management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components:

- 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide the readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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GAASTRA, MICHIGAN 49927
(906) 265-2141

Government-wide financial statements (Continued)

Both of the government-wide financial statements distinguish functions of the City that are mainly supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation and health, culture and recreation, and community development. The business-type activities of the City include Water and Sewer Utilities.

Fund Financial Statements

The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the City can be divided into three categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

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GAASTRA, MICHIGAN 49927
(906) 265-2141

Fund Financial Statements (Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

The City maintains four governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and major street fund, both of which are considered major funds.

All other governmental funds are presented in aggregate. Individual fund data for each fund is presented separately in the "Other Supplementary Information" section of this report.

The City adopts an annual budget for its general and special revenue funds. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general and special revenue funds, and is included in the "Required Supplementary Information" section of this document.

Proprietary Funds

Proprietary funds provide services for which the City charges customers a fee. The City has only one type of proprietary fund - enterprise funds. The enterprise funds of the City are used to report the same functions as the business-type activities in their government-wide financial statements. The Water Utility and Sewer Utility funds are presented separately in both the government-wide financial statements and the fund financial statements and are considered major funds. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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(906) 265-2141

Fund Financial Statements (Continued)

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The fiduciary fund for the City is the tax collection fund.

Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. These funds are presented separately in the fund financial statements section of the basic financial statements.

Notes to the Financial Statements

Notes to the financial statements are included in the basic financial statements and provide additional information that is essential for a full understanding the data provided in the government-wide and the fund financial statements.

Supplementary Information

Required supplementary information follows the basic financial statements, and includes budgetary comparison schedules for the General Fund and the City's major special revenue funds as presented in the governmental fund financial statements.

Separate combining financial statements for non-major governmental funds are also included in the Other Supplementary Information section of this document.

Government-wide Financial Analysis

In time, net assets of a governmental entity may serve as a useful indicator of the government's financial position. In the case of the City, assets exceeded liabilities by \$ 1,026,105 at June 30.

By far, the largest portion of the City's net assets is its investment in capital assets (land, buildings, machinery, and equipment), less any outstanding debt related to acquiring the asset. These capital assets are used to provide services to citizens and are not available for future spending.

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(906) 265-2141

Fund Financial Statements (Continued)

Government-wide Financial Analysis (Continued)

Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2004, the City reported \$ 833,498 in net assets invested in capital assets net of related debt.

External restrictions of the City's net assets represent resources subject to existing external obligations or programmatic control on future use. The remaining balance of unrestricted net assets of \$ 145,418 may be used to meet the government's ongoing obligations to citizens and creditors.

Total net assets in excess of liabilities at June 30 for the governmental activities and business-type activities were \$ 189,592 and \$ 836,513, respectively.

The following summarizes the comparative net assets at fiscal years ended June 30, 2004. Although GASB 34 requires that comparative financial data be presented, since this is the first year of implementation, prior year data is not available. Comparative financial data will be included in this schedule in subsequent years.

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 111497	\$ 83628	\$ 195125
Capital assets, net	<u>80613</u>	<u>1282885</u>	<u>1363498</u>
Total assets	192110	1366513	1558623
Long-term liabilities	0	518000	518000
Other liabilities	<u>2518</u>	<u>12000</u>	<u>14518</u>
Total liabilities	\$ 2518	\$ 530000	\$ 532518

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Fund Financial Statements (Continued)

Government-wide Financial Analysis (Continued)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
NET ASSETS:			
Invested in capital assets, net of related debt	\$ 80613	\$ 752885	\$ 833498
Reserved	12913	34276	47189
Unreserved	<u>96066</u>	<u>49352</u>	<u>145418</u>
Total Net Assets	189592	836513	1026105

For governmental activities, net assets decreased by \$ 4,692 during the fiscal year. For business-type activities, net assets decreased by \$ 24,784 during the fiscal year. Of this amount, a \$ 19,997 decrease is attributed to the Water Fund, and \$ 4,787 is attributed to the Sewer Fund.

For the fiscal year ended June 30, 2004, the government-wide results of operations were as follows: (Please note that since this is the first year of implementation of GASB 34, prior year financial data is not available, but will be provided in subsequent years).

	Primary Government		
	Governmental Activities	Business-type Activities	Total
REVENUES:			
<u>Program Revenues</u>			
Charges for services	\$ 76087	\$ 95721	\$ 171808
Operating grants and contributions	67345	0	67345
Capital grants and contributions	0	0	0
<u>General revenues</u>			
Property taxes	49508	0	49508
Other taxes	1493	0	1493
Unrestricted grants	53141	0	53141
Other	<u>2802</u>	<u>797</u>	<u>3599</u>
Total Revenues	\$ 250376	\$ 96518	\$ 346894

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Fund Financial Statements (Continued)

Government-wide Financial Analysis (Continued)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
EXPENSES:			
General Government	\$ 114746	\$ 0	\$ 114746
Legislative	7282	0	7282
Public safety	14880	0	14880
Public works	35089	0	35089
Highways and streets	59494	0	59494
Sanitation and health	10092	0	10092
Culture and recreation	1707	0	1707
Community development	0	0	0
Interest on long-term debt	0	0	0
Depreciation (Unallocated)	11778	0	11778
Business-type activities:			
Water	0	79742	79742
Sewer	0	41560	41560
Total Expenses	\$ 255068	\$ 121302	\$ 376370
Change in Net Assets	(4692)	(24784)	(29476)
Net Assets, beginning of year	<u>194284</u>	<u>861297</u>	<u>1055581</u>
Net Assets, end of year	\$ 189592	\$ 836513	\$ 1026105

Governmental Activities

Property taxes and other tax revenues comprise \$ 49,508 or approximately 20 percent of total governmental revenues.

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GAASTRA, MICHIGAN 49927
(906) 265-2141

Governmental Activities (Continued)

Operating grants and contributions for governmental activities ended the fiscal year at \$ 67,345, primarily attributable to the State of Michigan's Act 51 funding for major and local streets. At fiscal year end, the City reported \$ 53,141 in grants and contributions not restricted for specific programs. This amount was due entirely to the State of Michigan's state sales tax distribution.

The City expensed \$ 255,068 on governmental programs and services. The largest expense category was incurred for general government, which totaled \$ 114,746, or approximately 45 percent of total expenses. Streets and highway expenses were \$ 59,494 or 23 percent of the total, and public works expenses were \$ 35,089, or 14 percent of the total. Public safety expenses were attributed to management's continuing commitment to preserve the lives and property of the residents of the City, with current year expenses of \$ 14,880.

Business-type Activities

Business-type activities decreased the City's net assets by \$ 24,784. Charges for services for the Water and Sewer activities for the year ended were \$ 59,008 and \$ 36,713, respectively.

Total expenses for the Water and Sewer Fund activities for the year ended were \$ 79,742 and \$ 41,560, respectively.

Financial Analysis of the Governmental Funds

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

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GAASTRA, MICHIGAN 49927
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Financial Analysis of the Governmental Funds (Continued)

Governmental Funds (Continued)

The City's governmental funds reported combined ending fund balances of \$ 110,351, of which \$ 12,913 is reserved and the remaining \$ 97,438 is available for spending at the government's discretion.

The City's primary governmental fund is its general fund. There are no reservations in the general fund's fund balance.

On the budgetary basis of accounting, the City ended the fiscal year with revenues considerably more than the original and final projections. Total expenditures were also less than the final projection. At fiscal year end, the fund balance was higher than either the original or the final amended budget projections.

General fund financial and budgetary highlights of the fiscal year include:

- * Use of money and property exceeded final budgetary projections by \$ 67,271.
- * Charges for services were very close to the final amended budget, coming in at \$ 9,041, which is very close to the original and final budgeted estimates of \$ 9,100.
- * State of Michigan sales tax distribution of \$ 53,141 was less than anticipated in the final amended budget by \$ 55,487.
- * Expenditures in total for the general fund were \$ 183,796, less than the original and final budgets of \$ 196,919. This was largely due to the uncertainty of State revenues and concern over general economic conditions, which resulted in measures to control spending by the City.

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GAASTRA, MICHIGAN 49927
(906) 265-2141

Financial Analysis of the Governmental Funds (Continued)

Governmental Funds (Continued)

Special revenue funds financial and budgetary highlights of the fiscal year include:

- * State of Michigan Act 51 funding for major streets was slightly higher than the original and final budgeted amounts; coming in at \$ 51,101 compared to the budgeted \$ 50,970.
- * Total expenditures were \$ 46,327, lower than budgeted in either the original or the final amended budget by \$ 10,949.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the Water and Sewer Funds at year-end were \$ 708,503 and \$126,670, respectively. The growth or change in net assets for the Water and Sewer Funds were (\$ 19,997) and (\$ 4,787), respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30 is \$ 833,498. The investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles.

Infrastructure assets represent \$ 1,610,944, or approximately 68 percent of the estimated original cost of total assets. Major and local street funds comprise \$ 220,282, or 14 percent of this infrastructure; the Water Fund's infrastructure is appraised at \$ 1,217,553, or 75 percent of the total; the Sewer Fund's infrastructure is \$ 173,109, or 11 percent of the total. There is no infrastructure attributed to the General Fund.

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GAASTRA, MICHIGAN 49927
(906) 265-2141

Capital Asset and Debt Administration (Continued)

Capital Assets (Continued)

There were no major capital events during the current fiscal year.

Long-term debt

As of June 30, the City (including the enterprise funds) had total bonded debt outstanding of \$ 530,000. The entire amount of this debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation of \$ 333,178 is significantly higher than the City's outstanding general obligation debt.

Currently, the bond program does not maintain underlying bond ratings.

Other Economic Factors and Next Year's Budget

Economic Factors

Currently, the State of Michigan is experiencing a severe budgetary crisis. As such, it is anticipated that future state budget cuts will likely translate into strategic reductions of City expenses to maintain a fiscally sound budget.

Despite the poor outlook of the State's budget, the City's guiding principles for the upcoming fiscal year is to continue building and maintaining strong neighborhoods, provide good social and cultural conditions that support healthy families, remain a safe and clean city, and invest in opportunities that promote economic growth and financial capacity.

The City's fiscal year 2004-2005 general fund budget is \$ 162,097, representing a decline of \$ 34,822 over the previous fiscal year.

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Other Economic Factors and Next Year's Budget (Continued)

Economic Factors (Continued)

The following areas highlight the City's priorities and accomplishments:

- * Begin to repair the local streets of the City, including Center Street, Elmwood Street, and parts of Oakwood and Third Streets.
- * Encourage the development of residential property within the City through sale of parcels of City-owned property.
- * Accumulate funds for the repair and painting of the water tank. Begin repair in 2004-2005 fiscal year.

There are no substantial tax rate or fee changes proposed for the fiscal year 2004-2005.

Requests for information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

City Manager
City of Gaastra
P.O. Box 218
Gaastra, Michigan 49927

BASIC FINANCIAL STATEMENTS

CITY OF GAASTRA

STATEMENT OF NET ASSETS

JUNE 30, 2004

	<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTALS REPORTING ENTITY</u>
ASSETS			
<u>Current Assets</u>			
Cash and Cash Equivalents (Note C)	\$ 86414	\$ 46444	\$ 132858
Receivables			
Taxes	7830		7830
Accounts Receivable	0	2908	2908
Due from Other Governmental Units	<u>17253</u>		<u>17253</u>
Total Current Assets	111497	49352	160849
<u>Noncurrent Assets</u>			
Restricted Cash	0	34276	34276
Capital Assets, Net (Note H)	<u>80613</u>	<u>1282885</u>	<u>1363498</u>
Total Noncurrent Assets	80613	1317161	1397774
TOTAL ASSETS	192110	1366513	1558623
LIABILITIES			
<u>Current Liabilities</u>			
Accounts Payable	2518	0	2518
Current portion of long-term debt	<u>0</u>	<u>12000</u>	<u>12000</u>
Total Current Liabilities	2518	12000	14518
<u>Noncurrent Liabilities</u>			
Revenue Bonds Payable	<u>0</u>	<u>518000</u>	<u>518000</u>
Total Noncurrent Liabilities	0	518000	518000
TOTAL LIABILITIES	2518	530000	532518
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	80613	752885	833498
Reserved for Streets and Highways	12913		12913
Reserved for Water Fund Repairs/ Improvements		34276	34276
Unreserved and Undesignated	<u>96066</u>	<u>49352</u>	<u>145418</u>
TOTAL NET ASSETS	\$ <u>189592</u>	\$ <u>836513</u>	\$ <u>1026105</u>

The notes to the financial statements are an integral part of this report.

CITY OF IRON GAASTRA

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2004

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICE	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS
Primary Government				
General government	\$ 114746	\$ 0	\$ 0	\$ 0
Legislative	7282			
Public safety	14880			0
Public works	35089	67046		
Highways and streets	59494		67345	0
Sanitation and health	10092	9041		0
Culture and recreation	1707			0
Community development	0			
Interest on Long-Term				
Debt	0			
Intergovernmental	0			
Depreciation (Unallocated)	<u>11778</u>	<u>0</u>	<u></u>	<u>0</u>
Total Governmental Activities	255068	76087	67345	0
<u>Business-type Activities</u>				
Water	79742	59008		0
Sewer	<u>41560</u>	<u>36713</u>	<u></u>	<u>0</u>
Total Business-type Activities	121302	95721	0	0
TOTAL PRIMARY GOVERNMENT	376370	171808	67345	0

General Revenues:

Taxes:

Property taxes levied for general operations
 Other
 Penalties and Interest on Taxes
 State Sales Tax Distribution
 Interest and Investment Earnings
 Other

Total General Revenues

Change in Net Assets

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

CITY OF GAASTRA

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2004

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
\$ (114746)	\$	\$ (114746)
(7282)		(7282)
(14880)		(14880)
31957		31957
7851		7851
(1051)		(1051)
(1707)		(1707)
0		0
0		0
0		0
<u>(11778)</u>	<u>0</u>	<u>(11778)</u>
 (111636)	 0	 (111636)
	(20734)	(20734)
<u> </u>	<u>(4847)</u>	<u>(4847)</u>
 0	 (25581)	 (25581)
(111636)	(25581)	(137217)
 49508		 49508
1493		0
53141		1493
1245	483	53141
1557	314	1245
<u>106944</u>	<u>797</u>	<u>1871</u>
 (4692)	 (24784)	 (29476)
<u>194284</u>	<u>861297</u>	<u>1055581</u>
\$ <u>189592</u>	\$ <u>836513</u>	\$ <u>1026105</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2004

	<u>GENERAL FUND</u>	<u>MAJOR STREET FUND</u>	<u>NONMAJOR GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and Investments (Note C) \$	\$	\$	\$	\$
Unrestricted	80539	4539	1336	86414
Receivables:				
Taxes	7830			7830
Due from Other Governmental Units	6279	8666	2308	17253
Due from Other Funds	<u>3460</u>	<u> </u>	<u>238</u>	<u>3698</u>
TOTAL ASSETS	<u>98108</u>	<u>13205</u>	<u>3882</u>	<u>115195</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	670	924	924	2518
Due to Other Funds	<u> </u>	<u>2308</u>	<u>18</u>	<u>2326</u>
Total Liabilities	670	3232	942	4844
<u>FUND BALANCES</u>				
Reserved for Streets		9973	2940	12913
Unreserved and undesignated	<u>97438</u>	<u> </u>	<u> </u>	<u>97438</u>
Total Fund Balances	97438	9973	2940	110351
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>98108</u>	\$ <u>13205</u>	\$ <u>3882</u>	\$ <u>115195</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2004

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 110351

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

The cost of capital assets is: 598179
Accumulated depreciation is: (517566)

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds Payable 0
Compensated Absences 0

Other long-term assets not available to pay current period expenditures therefore deferred in the funds 0

Accrued interest is not included as a liability in governmental funds 0

Amounts due to other non-governmental funds are not reported in the governmental-wide financial statements (1372)

Total Net Assets - Governmental Activities \$ 189592

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2004

	GENERAL FUND	MAJOR STREET FUND	NONMAJOR GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
<u>REVENUE</u>				
General Property taxes	\$ 49508	\$ 0	\$ 0	\$ 49508
Other local taxes/fees	1493			1493
Use of money and property	68291			68291
Sale of garbage bags	9041			9041
Charges for services	0			0
Miscellaneous	1557			1557
Intergovernmental	<u>55914</u>	<u>51101</u>	<u>13471</u>	<u>120486</u>
TOTAL REVENUE	185804	51101	13471	250376
<u>EXPENDITURES</u>				
Current Operating:				
General government	114746			114746
Legislative	7282			7282
Public safety	14880			14880
Public works	35089			35089
Streets and Highways	0	46327	13167	59494
Sanitation and health	10092			10092
Culture and recreation	1707			1707
Capital Outlay	0			0
Intergovernmental Payments	<u>0</u>	<u> </u>	<u> </u>	<u>0</u>
TOTAL EXPENDITURES	183796	46327	13167	243290
Excess (Deficiency) of Revenues Over Expenditures	2008	4774	304	7086
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating transfers in	0			0
Operating transfers out	<u>0</u>	<u> </u>	<u> </u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	0	0	0	0
NET CHANGE IN FUND BALANCES	2008	4774	304	7086
FUND BALANCES - BEGINNING OF YEAR	<u>95430</u>	<u>5199</u>	<u>2636</u>	<u>103265</u>
FUND BALANCES - END OF YEAR	\$ <u>97438</u>	\$ <u>9973</u>	\$ <u>2940</u>	\$ <u>110351</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 7086

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives of depreciation.	
Depreciation Expense	(11778)
Capital Outlay	<u>0</u>
Total	(11778)

Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds	0
-------------------------------------------------------------------------------------------------------------------------------------------------------------------	---

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	0
--------------------------------------------------------------------------------------------------------------------------------------	---

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	0
---------------------------------------------------------------------------------------------------------------------------------------------------------	---

Increases (Decreases) in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6	0
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---

Eliminate interfund transfers to non-governmental funds	0
---------------------------------------------------------	---

Change in Net Assets of Governmental Activities \$ (4692)

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF FUND NET ASSETS
ENTERPRISE FUNDS**

JUNE 30, 2004

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTALS</u>
<u>ASSETS</u>			
<i>Current Assets:</i>			
Cash, unrestricted	\$ 42611	\$ 3833	\$ 46444
Accounts Receivables, net	1407	1501	2908
Due from other funds	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Current Assets</i>	44018	5334	49352
<i>Noncurrent Assets:</i>			
Restricted cash	34276		34276
Capital assets:			
Buildings	44163		44163
Equipment	330034		330034
Infrastructure	1217553	173109	1390662
Less:			
Allowance for depreciation	<u>(430201)</u>	<u>(51773)</u>	<u>(481974)</u>
Total capital assets, net	1161549	121336	1282885
<i>Total Noncurrent Assets</i>	1195825	121336	1317161
TOTAL ASSETS	1239843	126670	1366513
<u>LIABILITIES</u>			
<i>Current Liabilities:</i>			
Accounts payable	0	0	0
Due to other funds	1340		1340
Current portion of long-term debt	12000		12000
Deferred revenues	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Current Liabilities</i>	13340	0	13340
<i>Non-current Liabilities:</i>			
Revenue bonds payable	<u>518000</u>	<u>0</u>	<u>518000</u>
<i>Total Non-current Liabilities</i>	518000	0	518000
TOTAL LIABILITIES	531340	0	531340
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	631549	121336	752885
Reserved	34276		34276
Unreserved	<u>42678</u>	<u>5334</u>	<u>48012</u>
TOTAL NET ASSETS	\$ 708503	\$ 126670	\$ 835173

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS**

YEAR ENDED JUNE 30, 2004

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL ENTERPRISE FUNDS</u>
Operating Revenues:			
Charges for Services	\$ 59008	\$ 36713	\$ 95721
Miscellaneous	<u>259</u>	<u>55</u>	<u>314</u>
Total Operating Revenues	59267	36768	96035
Operating Expenses:			
Personal Services and Benefits	2419	1054	3473
Contractual Services	1116	28806	29922
Repairs and Maintenance	0	0	0
Other Supplies and Expenses	34920	8222	43142
Depreciation	<u>19310</u>	<u>3478</u>	<u>22788</u>
Total Operating Expenses	57765	41560	99325
OPERATING INCOME (LOSS)	1502	(4792)	(3290)
Non-Operating Revenues (Expenses:)			
Interest and Investment Revenue	478	5	483
Interest Expense	<u>(21977)</u>	<u> </u>	<u>(21977)</u>
Total Non-Operating Revenues (Expenses)	(21499)	5	(21494)
CHANGE IN NET ASSETS	(19997)	(4787)	(24784)
NET ASSETS, JULY 01, Before Restatement	93772	37765	131537
Add:			
Cumulative Effect of a Change in Accounting Principles	<u>634728</u>	<u>93692</u>	<u>728420</u>
NET ASSETS, July 01, After Restatement	<u>728500</u>	<u>131457</u>	<u>859957</u>
NET ASSETS, June 30	\$ <u>708503</u>	\$ <u>126670</u>	\$ <u>835173</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS**

FISCAL YEAR ENDED JUNE 30, 2004

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTALS</u>
CASH FLOWS FROM (USED BY)			
<u>OPERATING ACTIVITIES</u>			
Net cash received from fees and services	\$ 59497	\$ 36702	\$ 96199
Other operating revenues	259	55	314
Cash payments to employees for services	(2246)	(1054)	(3300)
Cash payments for goods and services	(36209)	(37028)	(73237)
Other operating expenses	<u>0</u>	<u>0</u>	<u>0</u>
NET CASH FROM OPERATING ACTIVITIES	\$ 21301	\$ (1325)	\$ 19976
<u>NON CAPITAL AND FINANCING ACTIVITIES</u>			
Increase (decrease) in due to other funds	63	0	63
(Increase) decrease in due from other funds	0	0	0
Net operating transfers in (out)	<u>0</u>	<u>0</u>	<u>0</u>
NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	\$ 63	\$ 0	\$ 63
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Acquisition and construction of capital assets	0	0	0
Principal payment on long-term bonds	(12000)	0	(12000)
Interest paid on long-term bonds	(21977)	0	(21977)
Interest and tax expense	0	0	0
Proceeds from borrowing	0	0	0
Contributed capital grants	<u>0</u>	<u>0</u>	<u>0</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (33977)	0	\$ (33977)
<u>INVESTING ACTIVITIES</u>			
Interest Income	<u>478</u>	<u>5</u>	<u>483</u>
NET CASH FROM INVESTING ACTIVITIES	\$ 478	5	483
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12135)	(1320)	(13455)
Cash and Cash Equivalents, Beginning of Year	<u>89022</u>	<u>5153</u>	<u>94175</u>
Cash and Cash Equivalents, End of Year	\$ <u>76887</u>	\$ <u>3833</u>	\$ <u>80720</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS**

FISCAL YEAR ENDED JUNE 30, 2004

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTALS</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Operating Income (Loss)	\$ 1502	\$ (4792)	\$ (3290)
Adjustment to reconcile operating income to net cash provided by operating activities:			
. Depreciation	19310	3478	22788
. Provision for uncollectible accounts	0	0	0
. Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	489	(11)	478
Increase (decrease) in accounts payable	0	0	0
Increase (decrease) in deferred revenue	0	0	0
Increase (decrease) in customer deposits	<u>0</u>	<u>0</u>	<u>0</u>
 NET CASH FROM OPERATING ACTIVITIES	 \$ 21301	 \$ (1325)	 \$ 19976

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

<u>ASSETS</u>	<u>AGENCY FUND</u>
Cash and Cash Equivalents	\$ 32
TOTAL ASSETS	32
 <u>LIABILITIES</u>	
Due to Other Funds	32
Due to Other Governmental Units	0
TOTAL LIABILITIES	32
 NET ASSETS	 \$ 0

The notes to the financial statements are an integral part of this report.

NOTES TO THE FINANCIAL
STATEMENTS

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by the City of Gaastra, Gaastra, Michigan, conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the more significant policies:

THE FINANCIAL REPORTING ENTITY

The City was organized in 1949 and covers an area of 2 square miles. The City operates under an elected board of five (5) commissioners and provides services to its approximately 376 residents in many areas including law enforcement, general administration and water and sewer services. In accordance with the provisions of GASB 14, certain other governmental organizations are not considered to be part of the City entity for financial reporting purposes. The criteria established by GASB 14 for determining the various governmental organizations to be included in the reporting entity's financial statements include separation of electing governing body and legal status, and fiscal independence.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the City.

BLENDED COMPONENT UNITS

A blended component unit is a legally separate entity from the local unit, but is so intertwined with the unit that it is, in substance, the same as the local governmental unit.

A basic strategy of GASB 14 is to present financial information for component units separately from the financial information for the primary government. This is achieved through the discrete presentation method. However, in the case of blended component units, GASB believes that it would be more appropriate to use the blending method to incorporate the financial information of a component unit into the reporting entity's financial statements.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BLENDED COMPONENT UNITS (Continued)

When the blending method is used, transactions and balances of a component unit are merged with similar transactions and balances of the primary government so that there is no way to identify which balances relate to the component unit and which relate to the primary government.

There are no blended component units to be included in the financial statements of the City of Gaastra.

JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)

An ongoing financial responsibility is defined as a participating government's obligation in some manner for debts or the joint venture's existence depends on continued funding by the participating government.

West Iron County Sewer Authority

The City of Gaastra has entered into an agreement with several governmental entities in Iron County to form the West Iron County Sewer Authority.

The Authority was established in August 1972 under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, and was organized to provide sewer service to the cities of Iron River, Stambaugh, Caspian, Gaastra, and a portion of Iron River Township.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)

West Iron County Sewer Authority
(Continued)

This preliminary budget is presented to each Constituent Municipality for review and consideration in its budgeting process.

Prior to adopting its final budget in June of each year for the fiscal year beginning the following July 01, the Authority holds a public hearing with respect to the preliminary budget. The preliminary and final budgets calculate EDU charges to cover both operation, maintenance, and replacement ("OMR") expenses and debt retirement expenses.

Included in OMR charges are funds for future replacements of all major plant equipment. During the fiscal year ended June 30, 2004, the City of Gaastra paid to the Authority fees totalling \$ 28,388 for OMR and debt retirement.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)

West Iron County Sewer Authority
(Continued)

Financial statements for the West Iron County Sewer Authority can be requested by writing to:

West Iron County Sewer Authority
P.O. Box 246
Caspian, MI 49915

JOINTLY GOVERNED ORGANIZATIONS

A jointly governed organization is a multigovernmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS (Continued)

Caspian-Gaastra Fire Authority

The Caspian-Gaastra Fire Authority was formed to organize, equip, and manage a fire department to provide fire protection for the land areas within the boundaries of the Cities of Caspian and Gaastra. The Caspian-Gaastra Fire Authority was formed on February 01, 2002, and, as provided by statute, operates under a Governing Board which consists of 2 members appointed by the governing body of each representative municipality, plus one additional member selected by the Board who shall be a resident of a participating municipality.

The Authority is funded by assessments from the participating municipalities. During the fiscal year ended June 30, 2004, the City paid an assessment of \$ 4,800 to the Authority for fire protection.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS (Continued)

Caspian-Gaastra Fire Authority (Continued)
Financial statements are available by
writing to:

Caspian-Gaastra Fire Authority
P.O. Box 350
Caspian, MI 49915

Stambaugh Cemetery Association

The Stambaugh Cemetery Association was established by the Cities of Caspian, Gaastra, and Stambaugh, and the Township of Stambaugh on February 17, 1975. The term of duration was designated to be thirty (30) years.

The City of Stambaugh terminated its participation in the Stambaugh Cemetery Association effective June 30, 2000 in conjunction with the consolidation of three municipalities - the Cities of Iron River and Stambaugh and the Village of Mineral Hills.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS (Continued)

Stambaugh Cemetery Association (Continued)

The purpose of the Association is to acquire, own, improve, enlarge, extend, and operate a cemetery system for residents of the Constituent Municipalities.

The Association operates under a Board of Directors, consisting of two (2) persons appointed by each of the Constituent Municipalities' controlling Boards, and is funded by assessments to each of its participating municipalities.

Financial statements can be obtained by request to:

Stambaugh Cemetery Association
P.O. Box 218
Gaastra, MI 49927

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS (Continued)

Stambaugh Cemetery Association (Continued)
During the fiscal year ended June 30, 2004,
the assessment paid to the Cemetery
Association by the City was \$2,712.

RELATED ORGANIZATIONS

A related organization is an organization
for which a primary government is not
financially accountable (because it does
not impose will or have a financial benefit
or burden relations) even though the
primary government appoints a voting
majority of the organization's governing
board.

There are no related organizations to the
City of Gaastra as defined above.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION

The City follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

Management's Discussion and Analysis

A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Government-wide financial statements

These include financial statements prepared using full accrual accounting for all of the government's activities.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Government-wide financial statements
(Continued)

This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement Net Assets and the Statement of Program Activities.

Statement of Net Assets

The Statement of Net Assets displays the financial position of the primary government (government and business-type activities) and its discretely presented component units.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Statement of Net Assets (Continued)

Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Program Activities

The statement of activities reports expenses and revenues in a format that focuses on the cost of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Budgetary comparison schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The City and many other governments revise their original budgets over the course of the year for a variety of reasons.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The reporting model focus is on both the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category).

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Both governmental-wide and fund financial statements presentations provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information. The City generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The City does not allocate indirect expenses. The operating grants and contributions column includes operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

In the fund financial statements, financial transactions and accounts of the City are organized in the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing sets of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The City's fiduciary funds are presented in the fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

The following is a brief description of the specific funds used by the City.

GOVERNMENTAL FUNDS

These funds are those through which most governmental functions typically are financed.

The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities, except those accounted for in the Proprietary Fund, are accounted for through the Governmental Funds. These funds are as follows:

General Fund

This fund is used for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS (Continued)

General Fund (Continued)

Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

The General Fund is always considered to be a major fund for reporting purposes.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action. The City's Major & Local Street Funds are Special Revenue Funds. The Major Street Fund is considered a major fund for reporting purposes.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS (Continued)

Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Currently, the City of Gaastra does not require a debt service fund. The governmental funds use the modified basis of accounting.

Capital Projects Fund

These funds are used to account for the purchase and/or construction of capital facilities by a governmental unit which are not accounted for by Proprietary Funds, Special Assessment Funds, or Trust Funds.

Currently, the City of Gaastra does not require a Capital Projects Fund.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPRIETARY FUNDS

Enterprise Funds

These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises----where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purpose. The Water Fund and Sewer Funds are Proprietary Funds.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FIDUCIARY FUNDS (Continued)

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds.

The City's *Current Tax Collection Fund* is a *Fiduciary Fund*. Agency funds are custodial in nature and do not involve measurement of results of operations.

MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

With this measurement focus, only current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statement of net assets and statement of activities, all proprietary funds, and private-purpose trust funds and pension trust funds (when applicable) are accounted for on a flow of economic resources measurement focus.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or on the statement of fiduciary net assets. Proprietary fund-type operating statements present increase (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statement of net assets, statement of activities, financial statement of Proprietary Fund and Fiduciary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

The fund financial statements of the General, Special Revenue, Debt Service, and Capital Projects funds are maintained and reported on (when applicable) the modified basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants revenue is considered to be measurable and available as revenue when related eligible expenditures are incurred.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

The local government unit applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed for accountability purposes only.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

ENCUMBRANCES

It is the City's policy to honor all unfilled contracts/orders at year-end, but the authority to complete these transactions is provided by the new year's budget appropriations, as unexpended appropriations of the current year lapse at year-end.

CASH AND CASH EQUIVALENTS

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

The City classifies cash on hand, cash on deposit (including certificates of deposit), and highly liquid investments with an original maturity of ninety days or less when purchased as cash in its financial statements.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

INVENTORIES

Inventories of supplies are expensed as received.

RECEIVABLES

Accounts which will be collected within sixty days of year-end are accrued as accounts receivable in the General and Special Revenue Funds. User charges for the Proprietary Fund are recorded as receivable when billed. On an annual basis the charges are reviewed for collectibility. Those deemed uncollectible are assigned to the tax roll.

INTEREST RECEIVABLE

Interest on certificates of deposit is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

DUE TO/FROM OTHER FUNDS

Transactions between funds that had not been paid or received as of fiscal year end have been recorded as interfund accounts receivable and payable in the financial statements. These interfund receivables and payables do not represent Board-approved loans between funds.

DEFERRED REVENUE

Deferred revenue represents amounts under the modified accrual basis of accounting for which asset recognition criteria have been met but for which revenue recognition criteria have not been met, whereby such amounts are measurable but not considered currently available resources.

At June 30, 2004, the City had no deferred revenue.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FUND EQUITY

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes. Designated fund balances represent amounts earmarked by the City for future expenditures.

Unreserved retained earnings represent net assets available for future operations or distribution. Reserved retained earnings represent net assets that have been legally identified for specific purposes. Designated retained earnings represent amounts earmarked by the City for future expenditures.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING

The City follows the State of Michigan Uniform Budgeting and Accounting Act for budgeting procedures. Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. Unexpended appropriations lapse at fiscal year-end.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30 of the preceding fiscal year, the City prepares a budget for the next fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING
(Continued)

2. A meeting of the City Council is then called for the purpose of adopting the proposed budget after sufficient public notice of the meeting has been given.
3. Prior to July 01, the budget is legally enacted through passage of a resolution by the members of the City Council.

Once the budget is approved, it can be amended at the Fund and Function level only by approval of a majority of the members of the City Council. Amendments are presented to the Council at their regular meetings. Each amendment must have Council approval.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY TAXES

The City's property taxes are levied and become a lien on each July 01st based on the taxable valuation of property located in the City as of the preceding December 31st.

These taxes are due on February 14th before they are added to the county delinquent tax rolls. The County of Iron purchases from the City delinquent real property taxes outstanding as of March 31st of each year.

Although the City ad valorem tax is levied and collectible on July 01st, it is the City's policy to recognize revenue from the current tax levy in the fiscal year for which they have been levied and become available. The 2003 taxable valuation of the City totaled \$ 2,538,438 on which ad valorem taxes levied consisted of 19.5036 mills for the City operating purposes.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NON-MONETARY TRANSACTIONS

The Single Audit Act of 1984, as amended, and OMB Circular A-133 defines federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc.

CAPITAL ASSETS

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the governmental-wide statements to the extent the City's capitalization threshold of \$ 1,000 is met. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings.....	20 - 30 years
Infrastructure.....	10 - 65 years
Furniture and Other Equipment.....	5 - 20 years

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

To the extent the City's capitalization threshold of \$ 1,000 is met, capital outlays of the Proprietary Funds are recorded as fixed assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the governmental-wide basis using the straight-line method and the following estimated useful lives:

Land Improvements..... 20 years
Equipment..... 5 - 20 years

All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

COMPENSATED ABSENCES

Sick Leave

Full time City employees are granted sick leave under Ordinance 21-B at the rate of one half day per every 173 hours worked. Sick leave can be accumulated up to a maximum of 18 days.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES (Continued)

Sick Leave (Continued)

An employee who quits, is discharged, or retires forfeits all rights to draw sick leave pay.

At June 30, 2004, the City's liability for accrued sick leave, plus the related costs of FICA and medicare, was \$ 4,260.

Vacation

Ordinance 21-A grants vacation benefits to full-time employees with one year or more of continuous service who have received earnings in at least 50% of the pay periods in the preceding calendar year, and have not been absent from work for six consecutive months or more in the preceding calendar year. An employee forfeits the right to receive vacation benefits if he quits or is discharged prior to January 01 of the vacation year.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES (Continued)

Vacation (Continued)

On June 30, 2004, the City's potential liability for accrued vacation, plus the related costs of FICA and medicare, was \$ 3,012.

GASB 16 establishes standards of accounting and reporting for compensated absences, and requires recognition of the liability in the financial statements if the employees' right to receive compensation is based on past service, and it is probable that the employee will receive the accrued benefit at separation. Because of the City's ordinance that employees forfeit all right to such benefits at termination, liability for compensated absences is not reported in the financial statements.

POST EMPLOYEE BENEFITS

The City of Gaastra provides no post-employment benefits other than MERS pension.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables do not represent interfund borrowings; instead, they represent actual amounts which are pending between funds at year-end due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE B - INTERFUND ACTIVITIES (CONTINUED)

INTERFUND RECEIVABLES AND PAYABLES
(Continued)

The amounts of the interfund receivables and payables as of June 30, 2004 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 3460	\$ 0
Trust and Agency	0	32
Local Street Fund	238	18
Major Street Fund	0	2308
Water Fund	<u>0</u>	<u>1340</u>
 Total	 \$ <u>3698</u>	 \$ <u>3698</u>

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE B - INTERFUND ACTIVITIES (CONTINUED)

OPERATING TRANSFERS

Interfund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

OTHER FINANCING SOURCES (USES)

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

CASH RESERVES

The bonding ordinances for the 2000 and 2001 Water Supply System Junior Lien Revenue bonds require certain cash balances be reserved for bond repayment.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

CASH RESERVES (Continued)

Junior Lien Bond and Interest Redemption Fund

Each quarter of the fiscal year, revenues must be transferred to the Bond and Interest Redemption Fund before any other expenditures or transfers. Sufficient amounts must be set aside to pay for the principal and interest payments accruing on the bonds.

As of June 20, 2004, the City is required to have \$ 7,422.50 in the Bond and Interest Redemption Fund. The actual balance on June 30, 2004 is \$ 13,109.

Junior Lien Bond Reserve Account

A reserve account for Bond and Interest Redemption is to be funded in the amount of \$ 441 per quarter, until there is accumulated the sum of \$ 17,640. No further deposits need be made thereafter.

Monies in the reserve account shall be used solely for payment of principal installments and interest on the bonds as to which there would otherwise be default.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

CASH RESERVES (Continued)

Junior Lien Bond Reserve Account
(Continued)

On June 30, 2004, the City is required to have \$ 5,919 on deposit in the Bond Reserve Account. The actual balance on June 30, 2004 is \$ 6,569.

Repair, Replacement, and Improvement Fund
The bonding ordinance requires the establishment of a Repair, Replacement, and Improvement Fund to be used for the purpose of paying the cost of (a) repairing any damage to and emergency maintenance of the System, (b) repairing or replacing obsolete, deteriorating, deteriorated or worn out portions of the System, (c) acquiring and constructing extensions and improvements to the System, and, when necessary, for the purpose of making payments of principal and interest on the Junior Lien Bonds.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

CASH RESERVES (Continued)

Repair, Replacement, and Improvement Fund
(Continued)

If the amount in the Bond and Interest Redemption Fund and the Bond Reserve Account is not sufficient to pay the principal and interest on the Bonds when due, the monies in the RRI Fund shall be transferred to the Bond and Interest Redemption Fund and used for that purpose.

Beginning October 1, 2000, the City is required to deposit into the RRI Fund an annual amount not less than \$875 less the amount, if any, deposited in the Bond Reserve Account at the beginning of the same Fiscal Year month. This amount was increased to \$ 991 beginning April 1, 2002.

On June 30, 2004, required deposits in the Repair, Replacement, and Improvement Fund are \$ 14,169. Actual deposits in the Repair, Replacement, and Improvement Fund are \$ 14,598.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

CASH AND DEPOSITS

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the local unit's cash deposits classifies cash according to three levels of risk.

These three levels of risk are as follows:

Category 1 Deposits which are insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

CASH AND DEPOSITS (Continued)

Category 3 Deposits which are not
collateralized or
insured.

Based on these levels of risk, the City's
cash deposits are classified as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Totals</u>
Cash and Deposits	\$ 167042	\$ -0-	\$ 124	\$ 167166

INVESTMENTS

The City's investments are categorized
below to give an indication of the level of
risk assumed at year-end.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

INVESTMENTS (Continued)

Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. **Category 2** includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's safekeeping department or agent in the City's name. **Category 3** includes uninsured and registered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the City's name.

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Value</u>	<u>Market Value</u>
None	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Total Investments	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY

Act 196, PA 1997, authorizes the City to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.
5. Bankers acceptance of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

The City has adopted an investment policy, allowing for all types of deposits and investments listed above. The City's deposits and investments are in compliance with its investment policy.

PRIMARY GOVERNMENT

On June 30, 2004, the carrying value of the City's deposits (Primary Government) was \$ 167,166 and is comprised of cash and deposits reflected in the following funds:

Governmental Funds

General Fund	\$	80539
Major Street Fund		4539
Local Street Fund		<u>1336</u>
Total Governmental Funds	\$	86414

(Continued on page 82)

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT (Continued)

(Continued from previous page)

Enterprise Funds

Water Fund	\$ 76887
Sewer Fund	<u>3833</u>
<i>Total Enterprise Funds</i>	\$ 80720

Fiduciary Funds

Tax Collection Fund	<u>32</u>
<i>Total Fiduciary Funds</i>	\$ 32

TOTAL PRIMARY GOVERNMENT	\$ 167166
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CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE D - PENSION PLAN

DESCRIPTION OF PLAN AND PLAN ASSETS

The City of Gaastra is an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS).

The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries.

The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE D - PENSION PLAN (CONTINUED)

DESCRIPTION OF PLAN AND PLAN ASSETS
(Continued)

MERS was organized pursuant to Section 12a of Act#156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system.

That report may be obtained by writing to:

MERS
447 North Canal Street
Lansing, Michigan 48917-9755

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE D - PENSION PLAN (CONTINUED)

FUNDING POLICY

The obligation to contribute to and maintain the system for these employees was established by the City of Gaastra's personnel policy, which does not require employees to contribute to the plan. The City is required to contribute at an actuarially determined rate; the current rate was 8.79 percent at December 31, 2003.

ANNUAL PENSION COST

During the fiscal year ended June 30, 2004, the City's contributions totaling \$ 5,036 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE D - PENSION PLAN (CONTINUED)

ANNUAL PENSION COST (Continued)

Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years.

The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on age-related scale to reflect merit, longevity, and promotional salary increases.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE D - PENSION PLAN (CONTINUED)

REQUIRED SUPPLEMENTARY INFORMATION FOR GASB STATEMENT NO. 25

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/01	\$ 36974	\$ 72611	\$ 35637	51%	\$ 52416	68%
12/31/02	44251	82730	38479	53%	54720	70%
12/31/03	54075	93172	39097	58%	56714	69%

GASB 25 AND GASB 27 INFORMATION

The following information has been prepared to provide the information necessary to comply with GASB Statements 25 and 27.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE D - PENSION PLAN (CONTINUED)

GASB 25 AND GASB 27 INFORMATION

Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1998.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2002 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$	-0-
Terminated employees not yet receiving benefits		-0-

(Continued on page 89)

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE D - PENSION PLAN (CONTINUED)

GASB 25 INFORMATION (as of 12/31/03)

(Continued from previous page)

Actuarial Accrued Liability

Current employees -	
Accumulated employee contributions including allocated investment income	\$ -0-
Employer Financed	<u>93,172</u>
Total Actuarial Accrued Liability	93,172
Net Assets Available for Benefits at Actuarial Value	<u>54,075</u>
(Market Value is \$ 49,376)	
Unfunded (Overfunded) Actuarial Accrued Liability	\$ 39,097

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE D - PENSION PLAN (CONTINUED)

GASB 27 INFORMATION (as of 12/31/03)

Fiscal Year Beginning	July 01, 2005
Annual Required Contribution (ARC)	\$ 5076
Amortization Factor Used	0.051679

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

BUDGET VIOLATIONS

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated. The City of Gaastra's actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis. The approved budgets of the City of Gaastra were adopted at the activity level.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)

BUDGET VIOLATIONS (Continued)

The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

The total actual 2003-2004 expenditures for the following activities (cost centers) exceeded the amended budget allocations by a total of \$ 57,994, contrary to the provisions of section 17 of Public Act 621 of 1978, the "Uniform Budgeting and Accounting Act".

<u>ACTIVITY (COST CENTER)</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER EXPENDITURES</u>
<u>General Fund</u>			
City Manager	\$ 37402	\$ 13386	\$ 24016
Legislative	7282	6550	732
City Property	19858	14236	5622

(Continued on page 92)

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

**NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)**

BUDGET VIOLATIONS (Continued)

<u>ACTIVITY (COST CENTER)</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER EXPENDITURES</u>
<u>General Fund (Continued)</u>			
Elections	\$ 1139	\$ 675	\$ 464
Public Safety - Fire	14880	13213	1667
Sanitation	10092	7740	2352
Other	11422	5380	6042
Board of Review	328	250	78
Street Lighting	4986	4600	386
<u>Major Street Fund</u>			
Administration	1630	1500	130
Routine Maintenance	32054	20970	11084
<u>Local Street Fund</u>			
Routine Maintenance	8063	2642	5421

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE F - ACCUMULATED FUND DEFICITS

At June 30, 2004, the City had no fund balance/retained earnings deficit in any fund.

NOTE G - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City.

NOTE H - CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended June 30, 2004:

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE H - CAPITAL ASSETS (CONTINUED)

GOVERNMENTAL ACTIVITIES

	Restated Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
Capital Assets Not Being Depreciated	\$	\$	\$	\$
Land and Land Improvements	30000	0	0	30000
Total Capital Assets Not Being Depreciated	\$ 30000	\$ 0	\$ 0	\$ 30000
Other Capital Assets				
Land Improvements	1718	0	0	1718
Buildings	222826	0	0	222826
Infrastructure	220282	0	0	220282
Furniture & Other Equip.	123353	0	0	123353
Total Other Cap. Assets	\$ 568179	\$ 0	\$ 0	\$ 568179
Less Accumulated Depreciation for:				
Land Improvements	(301)	(86)	0	(387)
Buildings	(194250)	(2420)	0	(196670)
Infrastructure	(220282)	0	0	(220282)
Furniture & Other Equip.	(90955)	(9272)	0	(100227)
Total Accum. Depreciation	(505788)	(11778)	0	(517566)
Other Capital Assets, Net	62391	(11778)	0	50613
TOTALS	\$ <u>92391</u>	\$ <u>(11778)</u>	\$ <u>0</u>	\$ <u>80613</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE H - CAPITAL ASSETS (CONTINUED)

GOVERNMENTAL ACTIVITIES (Continued)

Depreciation was charged to governmental functions as unallocated.

BUSINESS-TYPE ACTIVITIES

The following is a summary of changes in capital assets for business-type activities for the fiscal year ended June 30, 2004:

	Restated Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
<u>BUSINESS-TYPE ACTIVITIES</u>				
<u>Capital Assets Not Being Depreciated:</u>				
Land, Easements and Right-of-Way	\$ 0	\$ 0	\$ 0	\$ 0
<u>Other Capital Assets:</u>				
Land and Improvements	0	0	0	0
Buildings	44163	0	0	44163
Infrastructure	1390662	0	0	1390662
Machinery and Equipment	330034	0	0	330034
Total Capital Assets	\$ 1764859	\$ 0	\$ 0	\$ 1764859

(Continued on page 96)

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE H - CAPITAL ASSETS (CONTINUED)

BUSINESS-TYPE ACTIVITIES (Continued)

(Continued from previous page)

	Restated Balance June 30, <u>2003</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2004</u>
Less Accumulated Depreciation for:				
Land Improvements	\$ 0	\$ 0	\$ 0	\$ 0
Buildings	(44163)	0	0	(44163)
Infrastructure	(85857)	(22209)	0	(108066)
Machinery and Equipment	<u>(329166)</u>	<u>(579)</u>	<u>0</u>	<u>(329745)</u>
Total Accumulated Depreciation	<u>(459186)</u>	<u>(22788)</u>	<u>0</u>	<u>(481974)</u>
TOTALS	\$ <u>1305673</u>	\$ <u>(22788)</u>	\$ <u>0</u>	\$ <u>1282885</u>

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE I - LONG-TERM DEBT

The following is a summary of changes of the primary government's long-term debt obligation on June 30, 2004:

	<u>June 30,</u> <u>2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30,</u> <u>2004</u>
<u>Water Fund</u>	\$	\$	\$	\$
Water Supply System Improvement Bonds	190000	-0-	7000	183000
Junior Lien Revenue Bond # 91-01	269000	-0-	4000	265000
Junior Lien Revenue Bond # 91-03	<u>83000</u>	<u>-0-</u>	<u>1000</u>	<u>82000</u>
Totals	\$ <u>542000</u>	\$ <u>-0-</u>	\$ <u>12000</u>	\$ <u>530000</u>

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE I - LONG-TERM DEBT (CONTINUED)

WATER SUPPLY SYSTEM REVENUE BONDS (GMAC)

The City issued revenue bonds for Water Supply System Improvement on May 20, 1982, bearing an interest rate not to exceed 5% per annum. Interest is payable on January 01 and July 01 of each year. The bonds mature serially on July 01 of each year in the following manner:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004 - 2005	\$ 7000	\$ 9500	\$ 16500
2005 - 2006	7000	9150	16150
2006 - 2007	8000	8800	16800
2007 - 2008	8000	8400	16400
2008 - 2023	<u>153000</u>	<u>58900</u>	<u>211900</u>
Totals	\$ <u>183000</u>	\$ <u>94750</u>	\$ <u>277750</u>

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE I - LONG-TERM DEBT (CONTINUED)

2000 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND

On November 28, 2000, the City of Gaastra issued a bond consisting of one fully-registered nonconvertible bond of the denomination of \$ 278,000, payable in principal installments serially on July 01 of each year.

Bond proceeds are to be used for the purpose of acquiring and constructing certain additions, renovations, expansions and improvements to the system consisting generally of improvements to the water supply system, together with all necessary interests in land, rights of way and all appurtenances and attachments thereto.

The serial principal installments of the Junior Lien Bonds will each bear interest from the date of delivery of the corresponding delivery installment to the registered holder thereof at the rate of not to exceed three and one-quarter percent (3.25%) per annum, payable on the first January 01 or July 01 following the date of delivery of said delivery installment, and semiannually thereafter on January 01 and July 01 of each year until maturity or earlier payment of said installment.

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE I - LONG-TERM DEBT (CONTINUED)

**2000 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND (Continued)**

Scheduled payments of principal and
interest are as follows:

<u>FOR YEAR ENDING</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2005	\$ 4000	\$ 8613	\$ 12613
2006	4000	8482	12482
2007	4000	8253	12253
2008	4000	8222	12222
2009	4000	8093	12093
2010	4000	7962	11962
2011-2041	<u>241000</u>	<u>145960</u>	<u>386960</u>
Totals	\$ <u>265000</u>	\$ <u>195585</u>	\$ <u>460585</u>

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE I - LONG-TERM DEBT (CONTINUED)

2001 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND

On July 24, 2001, the City of Gaastra issued a bond consisting of one fully-registered, non-convertible bond in the total aggregate principal sum of \$ 85,000, issued pursuant to Ordinance No. 31, as amended, Ordinance No. 44, and Ordinance 45 (together, the "Ordinances"), and under and in full compliance with the Constitution and statutes of the State of Michigan, including specifically Act 94, Public Acts of Michigan, 1933, as amended, for the purpose of acquiring and constructing certain additions, renovations, expansions, and improvements to the system consisting generally of improvements to the water supply system, together with all necessary interests in land, rights of way, and all appurtenances and attachments thereto.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE I - LONG-TERM DEBT (CONTINUED)

2001 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND (Continued)

The serial principal installments of the Junior Lien Bonds will each bear interest from the date of delivery of the corresponding delivery installment to the registered holder thereof at the rate of not to exceed four and one-half percent (4.50%) per annum, payable beginning on January 01, 2002, and semiannually thereafter on January 01, and July 01 of each year until maturity or earlier prepayment of said installment.

Scheduled payments of principal and interest are as follows:

<u>FOR YEAR ENDING</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2005	\$ 1000	\$ 3732	\$ 4732

(Continued on page 103)

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE I - LONG-TERM DEBT (CONTINUED)

**2001 WATER SUPPLY SYSTEM JUNIOR LIEN
REVENUE BOND (Continued)**

(Continued from previous page)

<u>FOR YEAR ENDING</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2006	\$ 1000	\$ 3686	\$ 4686
2007	1000	3641	4641
2008	1000	3595	4595
2009	1000	3549	4549
2010	1000	3504	4504
2011-2041	<u>76000</u>	<u>66439</u>	<u>142439</u>
Totals	\$ <u>82000</u>	\$ <u>88146</u>	\$ <u>170146</u>

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE J - SEGMENT INFORMATION - Enterprise Funds

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$ 59267	\$ 36768	\$ 96035
Depreciation and Amortization Expense	50197	1324	51521
Operating Income (Loss)	(29385)	(2638)	32023
Operating Grants, Entitlements, and shared Revenues	0	0	0
Operating Transfers:			
In	0	0	0
(Out)	0	0	0
Tax Revenues	0	0	0
Net Income or Loss	(50884)	(2633)	53517
Current Capital:			
Contributions	0	0	0
Transfers	\$ 0	\$ 0	\$ 0

(Continued on page 105)

CITY OF GAASTRA

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2004

NOTE J - SEGMENT INFORMATION - Enterprise Funds

(Continued from previous page)

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
Property, Plant, and Equipment	\$	\$	\$
Additions	0	0	0
Deletions	0	0	0
Net Working Capital	76954	5334	82288
Total Assets	1422275	35132	1457407
Bonds and Other Long-Term			
Liabilities			
Payable from Operating Revenues	530000	0	530000
Payable from Other Sources	0	0	0
Total Equity	\$ 890935	\$ 35132	\$ 926067

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE K - RELATED PARTY TRANSACTIONS

Related parties exist when there is a relationship that offers the potential for transactions at less than arm's length, favorable treatment, or the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there were no related party transactions reported in the financial statements.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE M - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectibility of any related receivable at June 30, 2004 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE N - CHANGE IN ACCOUNTING PRINCIPLE

With the implementation of GASB 34, the opening retained earnings balances in the City's Water and Sewer Funds were adjusted to reflect the cumulative effect of a change in accounting principle.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

JUNE 30, 2004

NOTE N - CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

The City had previously adopted the reporting prescribed by the National Council on Governmental Accounting (NCGA Statement No. 2, "Grant Entitlement and Shared Revenue Accounting and Reporting by State and Local Governments". The statement required that the depreciation of fixed assets purchased with restricted grant funds or shared revenue be closed directly to the contributed capital account that was created when the restricted or shared revenue was received. The contributed capital account, less accumulated amortization, was a component of fund equity.

This statement was superseded by GASB Statement 34, which no longer recognizes the contributed capital account.

The result was a cumulative effect of a change in accounting principle, which effectively restated the opening retained earning balances.

REQUIRED SUPPLEMENTAL
INFORMATION

CITY OF GAASTRA

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

FISCAL YEAR ENDED JUNE 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>FINAL AMENDED BUDGET</u>	<u>ACTUAL</u>
<u>REVENUE</u>			
General property taxes	\$ 50095	\$ 50095	\$ 49508
Other local taxes	0	0	0
Penalties and interest on taxes	390	390	1493
Use of money and property	1020	1020	68291
Charges for services	9100	9100	9041
Miscellaneous	0	0	1557
Recovered costs	0	0	0
Intergovernmental	<u>55487</u>	<u>55487</u>	<u>55914</u>
TOTAL REVENUE	116092	116092	185804
<u>EXPENDITURES</u>			
General government	96312	88601	114746
Legislative	8061	6550	7282
Public safety	13213	13213	14880
Public works	69818	78180	35089
Sanitation and health	7740	7740	10092
Culture and recreation	<u>1775</u>	<u>2635</u>	<u>1707</u>
TOTAL EXPENDITURES	196919	196919	183796
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating transfers in	0	0	0
Operating transfers out	0	0	0
Transfers to component units	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	0	0	0
NET CHANGE IN FUND BALANCE	(80827)	(80827)	2008
FUND BALANCE - Beginning of Year	<u>95430</u>	<u>95430</u>	<u>95430</u>
FUND BALANCE - End of Year	\$ <u>14603</u>	\$ <u>14603</u>	\$ <u>97438</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND**

YEAR ENDED JUNE 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>FINAL AMENDED BUDGET</u>	<u>ACTUAL</u>
<u>REVENUE</u>			
State Transportation Funds	\$ 50970	\$ 50970	\$ 51101
Other Revenue	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL REVENUE	50970	50970	51101
 <u>EXPENDITURES - CURRENT</u>			
Administration	1500	1500	1630
Routine Maintenance	20970	20970	32054
Winter Maintenance	14806	14806	12643
Capital Outlay	<u>20000</u>	<u>20000</u>	<u>0</u>
TOTAL EXPENDITURES	57276	57276	46327
 <u>OTHER FINANCING SOURCES (USES)</u>			
Operating transfers in	0	0	0
Operating transfers out	0	0	0
Transfers to component units	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	0	0	0
 NET CHANGE IN FUND BALANCE	(6306)	(6306)	4774
 FUND BALANCE - Beginning of Year	<u>5199</u>	<u>5199</u>	<u>5199</u>
FUND BALANCE - End of Year	\$ <u>(1107)</u>	\$ <u>(1107)</u>	\$ <u>9973</u>

The notes to the financial statements are an integral part of this report.

OTHER SUPPLEMENTAL
INFORMATION

CITY OF GAASTRA

OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2004

	<u>SPECIAL REVENUE</u>
	<u>LOCAL STREET</u>
	<u>FUND</u>
<u>ASSETS</u>	
Cash and Investments (Note C)	\$ 1336
Receivables	
Accounts Receivable	2308
Due from Other Funds	<u>238</u>
TOTAL ASSETS	\$ <u>3882</u>
<u>LIABILITIES AND FUND BALANCES</u>	
<u>LIABILITIES</u>	
Accounts Payable	924
Due to Other Funds	<u>18</u>
TOTAL LIABILITIES	924
<u>FUND BALANCES</u>	
Reserved for Local Streets	<u>2940</u>
TOTAL FUND BALANCES	2940
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>3882</u>

Notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

OTHER SUPPLEMENTAL INFORMATION
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2004

<u>REVENUE</u>	<u>SPECIAL REVENUE</u>
	<u>LOCAL STREET</u>
	<u>FUND</u>
Use of money and property	\$ 0
Miscellaneous local revenue	0
Intergovernmental	<u>13471</u>
TOTAL REVENUE	\$ 13471
 <u>EXPENDITURES</u>	
Current:	
Highways and streets	13167
Capital Outlay	0
Intergovernmental Payments	<u>0</u>
TOTAL EXPENDITURES	13167
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 304
 <u>OTHER FINANCING SOURCES (USES)</u>	
Operating transfers in	0
Operating transfers out	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	0
 NET CHANGE IN FUND BALANCES	 304
 FUND BALANCES - Beginning of Year	 <u>2636</u>
FUND BALANCES - End of Year	\$ <u><u>2940</u></u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

COMBINING BALANCE SHEET
ALL SPECIAL REVENUE FUNDS

JUNE 30, 2004

<u>ASSETS</u>	<u>MAJOR STREET FUND</u>	<u>LOCAL STREET FUND</u>	<u>TOTALS</u>
Cash and Deposits, Unrestricted	\$ 4539	\$ 1336	\$ 5875
Accounts Receivable			
State	8666	2308	10974
Due from Other Funds	<u>0</u>	<u>238</u>	<u>238</u>
TOTAL ASSETS	<u>13205</u>	<u>3882</u>	<u>17087</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
<u>LIABILITIES</u>			
Accounts Payable	924	924	1848
Due to Other Funds	<u>2308</u>	<u>18</u>	<u>2326</u>
TOTAL LIABILITIES	3232	942	4174
 <u>FUND EQUITY</u>			
Fund Balance	<u>9973</u>	<u>2940</u>	<u>12913</u>
TOTAL FUND EQUITY	9973	2940	12913
 TOTAL LIABILITIES AND FUND EQUITY	 \$ <u>13205</u>	 \$ <u>3882</u>	 \$ <u>17087</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

ALL SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED JUNE 30, 2004

<u>REVENUES</u>	<u>MAJOR STREET FUND</u>	<u>LOCAL STREET FUND</u>	<u>TOTALS</u>
STATE REVENUE	\$	\$	\$
State Transportation Funds	<u>51101</u>	<u>13471</u>	<u>64572</u>
TOTAL REVENUES	51101	13471	64572
 <u>EXPENDITURES</u>			
Administration	1630	705	2335
Routine Maintenance	32054	8063	40117
Winter Maintenance	12643	4399	17042
Capital Outlay	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	<u>46327</u>	<u>13167</u>	<u>59494</u>
 Excess of Revenues Over (Under) Expenditures	 4774	 304	 5078
 <u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In (Out)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
 Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	 4774	 304	 5078
 FUND BALANCE, JULY 1	 <u>5199</u>	 <u>2636</u>	 <u>7835</u>
FUND BALANCE, JUNE 30	\$ <u><u>9973</u></u>	\$ <u><u>2940</u></u>	\$ <u><u>12913</u></u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

BALANCE SHEET - GENERAL FUND

JUNE 30, 2004

ASSETS

Cash and Deposits, Unrestricted	\$	80539
Cash and Deposits, Restricted		0
Accounts Receivables		
State Sources		6279
Other Sources		0
Taxes Receivable		7830
Due from Other Funds		3460
Property, Plant and Equipment, (Net of Depreciation)		<u>0</u>
TOTAL ASSETS	\$	<u>98108</u>

LIABILITIES AND FUND EQUITY**LIABILITIES**

Accounts Payable	670
Deferred Revenue	0
Due to Other Funds	0
Bonds Payable	0
Due to Other Funds	<u>0</u>
TOTAL LIABILITIES	670

FUND EQUITY

Retained Earnings	0
Fund Balance	<u>97438</u>
TOTAL FUND EQUITY	97438

TOTAL LIABILITIES AND FUND EQUITY	\$	<u>98108</u>
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The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF REVENUES - ACTUAL AND BUDGET

GENERAL FUND

FISCAL YEAR ENDED JUNE 30, 2004

(With Comparative Totals for Fiscal Year Ended June 30, 2003)

	FISCAL YEAR ENDED JUNE 30, 2004			FISCAL YEAR ENDED 6/30/03
	ACTUAL	BUDGET	VARIANCE Favorable (Unfavorable)	
<u>LOCAL REVENUE</u>				
Property Taxes				
Current Levy	\$ 49508	\$	\$	\$ 48837
Interest, Penalties, and Collection Fees	1493			1586
Other Taxes	0			1312
General Property Taxes	51001	50485	516	51735
Rental Income				
Equipment Rental	67046	0	67046	62179
Miscellaneous				
Interest Income	1245			1659
Sale of Garbage Bags	9041			8907
Other	1557			3977
Total Miscellaneous Revenue	11843	10120	1723	14543
TOTAL LOCAL REVENUE	129890	60605	69285	128457
 <u>STATE SHARED REVENUE</u>				
Sales Tax Distribution	53141			53630
Annual Maintenance	0			630
Metro Act	2773			0
TOTAL STATE SHARED REVENUE	55914	55487	427	54260
 TOTAL REVENUE	\$ <u>185804</u>	\$ <u>116092</u>	\$ <u>69712</u>	\$ <u>182717</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET
GENERAL FUND**

FISCAL YEAR ENDED JUNE 30, 2004
(With Comparative Totals for Fiscal Year ended June 30, 2003)

	<u>FISCAL YEAR ENDED JUNE 30, 2004</u>			<u>FISCAL</u>
			<u>VARIANCE</u>	<u>YEAR</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>Favorable</u>	<u>ENDED</u>
			<u>(Unfavorable)</u>	<u>6/30/03</u>
<u>LEGISLATIVE</u>				
Commissioner Fees	\$ 2220	\$	\$	\$ 2252
Legal Fees	4031			8438
Accounting/Audit	596			1028
Printing and Publishing	435			199
Miscellaneous	<u>0</u>	<u> </u>	<u> </u>	<u>25</u>
TOTAL LEGISLATIVE	7282	6550	(732)	11942
<u>GENERAL GOVERNMENT</u>				
<u>City Manager</u>				
Salary	21130			15770
Travel and Other	55			110
Insurance	14194			12353
Fees	345			426
Fringe Benefits	1616			1215
Miscellaneous	<u>62</u>	<u> </u>	<u> </u>	<u>20</u>
Total City Manager	37402	13386	(24016)	29894
<u>City Clerk/Treasurer</u>				
Salary	28244			26966
Supplies	144			0
Insurance and Bonds	8016			5755
Contract Services	698			510
Fees	385			446
Fringe Benefits	2161			5489
Travel and Other	<u>0</u>	<u> </u>	<u> </u>	<u>58</u>
Total City Clerk/Treasurer	39648	49221	9573	39224
Cemetery	2712	2712	0	2712
<u>City Property</u>				
Salary	2313			1140
Supplies and Other	1696			3493
Utilities	13751			13013
Fringe Benefits	177			87
Contract Services	<u>1921</u>	<u> </u>	<u> </u>	<u>2655</u>
Total City Property	19858	14236	(5622)	20388
<u>Assessor/Equalization</u>				
Personal Services	2049			2131
Supplies	123			84
Miscellaneous	<u>0</u>	<u> </u>	<u> </u>	<u>75</u>
Total Assessor	\$ 2172	\$ 2666	\$ 494	\$ 2290

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET
(CONTINUED)
GENERAL FUND**

FISCAL YEAR ENDED JUNE 30, 2004
(With Comparative Totals for Fiscal Year Ended June 30, 2003)

	<u>FISCAL YEAR ENDED JUNE 30, 2004</u>			<u>FISCAL</u>
			<u>VARIANCE</u>	<u>YEAR</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>Favorable</u>	<u>ENDED</u>
			<u>(Unfavorable)</u>	<u>6/30/03</u>
GENERAL GOVERNMENT (Continued)				
Elections	\$	\$	\$	\$
Printing and Publishing	90			38
Supplies	131			375
Fees	<u>918</u>			<u>981</u>
Total Elections	1139	675	(464)	1394
Board of Review				
Printing and Publishing	148			106
Fees	<u>180</u>			<u>175</u>
Total Board of Review	328	250	(78)	281
Zoning Board	<u>64</u>	<u>75</u>	<u>11</u>	<u>50</u>
TOTAL GENERAL GOVERNMENT	\$ 103323	\$ 83221	\$ (20102)	\$ 96233
PUBLIC SAFETY - FIRE				
Caspian-Gaastra Fire Authority -				
Assessment	<u>14880</u>			<u>14810</u>
Total Public Safety	14880	13213	(1667)	14810
PUBLIC WORKS				
Salary	14509			17871
Supplies	3456			4386
Utilities	1399			2002
Fuel, Grease and Oil	3456			1103
Other Costs	176			124
Contract Services	310			1146
Insurance	3483			5258
Fringe Benefits	1110			1367
Fees	0			270
Repairs and Maintenance	<u>2204</u>			<u>0</u>
Total Public Works	30103	73580	43477	33527
PARKS AND RECREATION				
Salary	1472			3779
Fringe Benefits	113			289
Supplies	<u>122</u>			<u>1009</u>
Total Parks and Recreation	\$ 1707	\$ 2635	\$ 928	\$ 5077

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET
(CONTINUED)
GENERAL FUND

FISCAL YEAR ENDED JUNE 30, 2004
(With Comparative Totals for Fiscal Year Ended June 30, 2003)

	FISCAL YEAR ENDED JUNE 30, 2004			FISCAL
	ACTUAL	BUDGET	VARIANCE Favorable (Unfavorable)	YEAR ENDED 6/30/03
SANITATION				
Collection Fees	\$ 7864	\$	\$	\$ 4898
Tipping Fees	421			6819
Recycling Fees	367			309
Supplies	1440			0
Total Sanitation	10092	7740	(2352)	12026
 STREET LIGHTING	 4986	 4600	 (386)	 4159
CAPITAL OUTLAY	0	0	0	0
 OTHER				
Dues, Memberships, and Contributions	6892			2741
Insurance	2245			1763
Other	2286			1829
Total Other	11423	5380	(6043)	6333
 TOTAL EXPENDITURES	 \$ 183796	 \$ 196919	 \$ 13123	 \$ 184107

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

BALANCE SHEET
MAJOR STREET FUND

JUNE 30, 2004

ASSETS

Cash and Deposits, Unrestricted	\$	4539
Accounts Receivable		
State		<u>8666</u>
TOTAL ASSETS	\$	<u>13205</u>

LIABILITIES AND FUND EQUITY
LIABILITIES

Accounts Payable		924
Due to Other Funds		<u>2308</u>
TOTAL LIABILITIES		3232

FUND EQUITY

Fund Balance, Unreserved		<u>9973</u>
TOTAL FUND EQUITY		9973

TOTAL LIABILITIES AND FUND EQUITY	\$	<u>13205</u>
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The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
MAJOR STREET FUND

FISCAL YEAR ENDED JUNE 30, 2004
(With Comparative Totals for Fiscal Year Ended June 30, 2003)

	FISCAL YEAR ENDED JUNE 30, 2004			FISCAL
			VARIANCE	YEAR
	ACTUAL	BUDGET	Favorable (Unfavorable)	ENDED
				6/30/03
REVENUES				
STATE SOURCES				
State Transportation Funds	\$ 51101	\$ 50970	\$ 131	\$ 53956
Total State Sources	51101	50970	131	53956
TOTAL REVENUES	51101	50970	131	53956
EXPENDITURES				
ADMINISTRATION				
Legal and Accounting	1630	—	—	1697
Total Administration	1630	1500	(130)	1697
ROUTINE MAINTENANCE				
Salaries and Wages	938	—	—	1078
Fringe Benefits	72	—	—	82
Supplies	5928	—	—	3091
Equipment Rental	25116	—	—	38387
Contract Services	0	—	—	1500
Miscellaneous	0	—	—	998
Total Routine Maintenance	32054	20970	(11084)	45136
WINTER MAINTENANCE				
Salaries and Wages	1646	—	—	2751
Fringe Benefits	126	—	—	210
Equipment Rental	9313	—	—	5627
Supplies	1558	—	—	1444
Miscellaneous	0	—	—	235
Total Winter Maintenance	12643	14806	2163	10267
CAPITAL OUTLAY	0	20000	20000	1600
TOTAL EXPENDITURES	\$ 46327	\$ 57276	\$ 10949	\$ 57100

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(CONTINUED)

ACTUAL AND BUDGET
MAJOR STREET FUND

FISCAL YEAR ENDED JUNE 30, 2004
(With Comparative Totals for Fiscal Year Ended June 30, 2003)

	FISCAL YEAR ENDED JUNE 30, 2004			FISCAL
	ACTUAL	BUDGET	VARIANCE Favorable (Unfavorable)	YEAR ENDED 6/30/03
Excess of Revenues Over (Under) Expenditures	\$ 4774	\$ (6306)	\$ 11080	\$ (3144)
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating Transfers In (Out)	0	0	0	(919)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	4774	(6306)	11080	(4063)
FUND BALANCE, JULY 1	<u>5199</u>			<u>9262</u>
FUND BALANCE, JUNE 30	\$ <u>9973</u>			\$ <u>5199</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

BALANCE SHEET
LOCAL STREET FUND

JUNE 30, 2004

ASSETS

Cash and Deposits, Unrestricted	\$	1336
Accounts Receivable		
State		2308
Due from Other Funds		<u>238</u>
TOTAL ASSETS	\$	<u>3882</u>

LIABILITIES AND FUND EQUITY
LIABILITIES

Accounts Payable	924
Due to Other Funds	<u>18</u>
TOTAL LIABILITIES	942

FUND EQUITY

Fund Balance, Unreserved	<u>2940</u>
TOTAL FUND EQUITY	2940

TOTAL LIABILITIES AND FUND EQUITY	\$	<u>3882</u>
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The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
LOCAL STREET FUND

FISCAL YEAR ENDED JUNE 30, 2004
(With Comparative Totals for Fiscal Year Ended June 30, 2003)

	FISCAL YEAR ENDED JUNE 30, 2004			FISCAL YEAR ENDED 6/30/03
	ACTUAL	BUDGET	VARIANCE Favorable (Unfavorable)	
REVENUES				
STATE SOURCES				
State Transportation Funds	\$ 13471	\$ 12318	\$ 1153	\$ 11501
Total State Sources	13471	12318	1153	11501
TOTAL REVENUES	13471	12318	1153	11501
 EXPENDITURES				
ADMINISTRATION				
Legal and Accounting	580			1097
Supplies	125			0
Total Administration	705	1500	795	1097
 ROUTINE MAINTENANCE				
Salaries and Wages	190			1096
Fringe Benefits	15			84
Supplies	2615			2182
Equipment Rental	5243			4687
Repairs	0			0
Miscellaneous	0			90
Total Routine Maintenance	8063	2642	(5421)	8139
 WINTER MAINTENANCE				
Salaries and Wages	758			588
Fringe Benefits	58			45
Equipment Rental	2026			916
Supplies	1557			450
Total Winter Maintenance	4399	4443	44	1999
 CAPITAL OUTLAY				
	0	5000	5000	0
TOTAL EXPENDITURES	\$ 13167	\$ 13585	\$ 418	\$ 11235

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(CONTINUED)

ACTUAL AND BUDGET
LOCAL STREET FUND

FISCAL YEAR ENDED JUNE 30, 2004
(With Comparative Totals for Fiscal Year Ended June 30, 2003)

	FISCAL YEAR ENDED JUNE 30, 2004			FISCAL
	ACTUAL	BUDGET	VARIANCE Favorable (Unfavorable)	YEAR ENDED 6/30/03
Excess of Revenues Over (Under) Expenditures	\$ 304	\$ (1267)	\$ 1571	\$ 266
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating Transfers In (Out)	<u>0</u>	<u>0</u>	<u>0</u>	<u>919</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	304	(1267)	1571	1185
FUND BALANCE, JULY 1	<u>2636</u>			<u>1451</u>
FUND BALANCE, JUNE 30	\$ <u>2940</u>			\$ <u>2636</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

BALANCE SHEET
WATER FUND

JUNE 30, 2004

ASSETS

Cash and Deposits, Unrestricted	\$ 42611
Cash and Deposits, Restricted	34276
Accounts Receivable	1407
Property, Plant, and Equipment (Net of Depreciation)	<u>1161549</u>

TOTAL ASSETS	\$ <u>1239843</u>
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LIABILITIES AND FUND EQUITY

LIABILITIES

Due to Other Funds	1340
Notes/Bonds Payable	<u>530000</u>

TOTAL LIABILITIES	531340
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FUND EQUITY

Retained Earnings	<u>708503</u>
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TOTAL FUND EQUITY	<u>708503</u>
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TOTAL LIABILITIES AND FUND EQUITY	\$ <u>1239843</u>
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The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
WATER FUND**

FISCAL YEAR ENDED JUNE 30, 2004

(With Comparative Totals for Fiscal Year Ended June 30, 2003)

	<u>2004</u>	<u>2003</u>
<u>OPERATING REVENUES</u>		
<u>Charges for Services</u>	\$	\$
City User Fees	54208	54547
Hydrant Fees	4800	4800
Other Revenues	<u>259</u>	<u>842</u>
TOTAL OPERATING REVENUES	\$ 59267	\$ 60189
 <u>OPERATING EXPENSES</u>		
<u>Administration</u>		
Salaries and Wages	0	350
Fringe Benefits	0	77
Training/Travel	193	847
Legal and Audit	1116	2111
Supplies	948	414
Printing/Publishing	602	157
Other Expenses	<u>256</u>	<u>75</u>
Total Administration	3115	4031
 <u>Water Lines/Samples</u>		
Salaries and Wages	557	918
Fringe Benefits	43	70
Supplies	1321	749
Training/Travel	0	105
Equipment Rental	9489	10249
Other Expenses	<u>593</u>	<u>1683</u>
Total Water Lines	12003	13774
 <u>Hydrants</u>		
Salaries and Wages	560	0
Fringe Benefits	43	0
Training/Travel	0	40
Equipment Rental	<u>2000</u>	<u>0</u>
Total Hydrants	2603	40
 <u>Pumps/Lift Stations</u>		
Salaries and Wages	454	72
Fringe Benefits	35	5
Supplies	0	60
Utilities	3325	1371
Other Expenses	0	477
Equipment Rental	<u>9376</u>	<u>0</u>
Total Pumps/Lift Stations	\$ 13190	\$ 1985

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
(CONTINUED)**

WATER FUND

FISCAL YEAR ENDED JUNE 30, 2004

(With Comparative Totals for Fiscal Year Ended June 30, 2003)

	<u>2004</u>	<u>2003</u>
<u>OPERATING EXPENSES</u> (Continued)		
<u>Water Tank</u>	\$	\$
Equipment Rental	<u>369</u>	<u>0</u>
Total Water Tank	369	0
<u>Meters</u>		
Salaries and Wages	675	147
Fringe Benefits	52	11
Supplies	1083	1133
Maintenance and Repairs	0	0
Equipment Rental	0	950
Other	<u>1000</u>	<u>1280</u>
Total Meters	2810	3521
<u>Other Expenses</u>		
Insurance	4150	4000
Depreciation	19310	12289
Other	<u>215</u>	<u>112</u>
Total Other Expenses	<u>23675</u>	<u>16401</u>
TOTAL OPERATING EXPENSES	<u>57765</u>	<u>39752</u>
Operating Income	1502	20437
<u>Non Operating Revenue</u>		
Interest Income	478	949
Grant Proceeds	0	52100
<u>Non Operating Expenses</u>		
Interest and Fiscal Charges	(21977)	(22470)
Allocation to Contributed Capital	<u>0</u>	<u>(52100)</u>
Net Income	(19997)	(1084)
RETAINED EARNINGS, July 01,		
before restatement	93772	94856
Add: Cumulative Effect of a Change in Accounting Principles	<u>634728</u>	<u>0</u>
RETAINED EARNINGS, June 30, after		
restatement	728500	94856
RETAINED EARNINGS, JUNE 30	\$ <u>708503</u>	\$ <u>93772</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF CASH FLOWS
WATER FUND**

FISCAL YEAR ENDED JUNE 30, 2004
(With Comparative Totals for Fiscal Year Ended June 30, 2003)

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM (USED BY)		
<u>OPERATING ACTIVITIES</u>		
Net cash received from fees and services	\$ 59497	\$ 58712
Other operating revenues	259	842
Cash payments to employees for services	(2246)	(1650)
Cash payments for goods and services	(36209)	(25813)
Other operating expenses	<u>0</u>	<u>0</u>
NET CASH FROM OPERATING ACTIVITIES	\$ 21301	\$ 32091
<u>NON CAPITAL AND FINANCING ACTIVITIES</u>		
Increase (decrease) in due to other funds	63	1094
(Increase) decrease in due from other funds	0	0
Net operating transfers in (out)	<u>0</u>	<u>0</u>
NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	\$ 63	\$ 1094
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and construction of capital assets	0	(65450)
Principal payment on long-term bonds	(12000)	(11000)
Interest paid on long-term bonds	(21977)	(22470)
Interest and tax expense	0	0
Proceeds from borrowing	0	0
Contributed capital grants	<u>0</u>	<u>52100</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (33977)	\$ (37820)
<u>INVESTING ACTIVITIES</u>		
Interest Income	<u>478</u>	<u>949</u>
NET CASH FROM INVESTING ACTIVITIES	\$ 478	\$ 949
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12135)	(3686)
Cash and Cash Equivalents, Beginning of Year	<u>89022</u>	<u>92708</u>
Cash and Cash Equivalents, End of Year	\$ 76887	\$ 89022

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF CASH FLOWS
WATER FUND**

FISCAL YEAR ENDED JUNE 30, 2004
(With Comparative Totals for Fiscal Year Ended June 30, 2003)

	<u>2004</u>	<u>2003</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ 1502	\$ 20437
Adjustment to reconcile operating income to net cash provided by operating activities:		
. Depreciation	19310	12289
. Provision for uncollectible accounts	0	0
. Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	489	(635)
Increase (decrease) in accounts payable	0	0
Increase (decrease) in deferred revenue	0	0
Increase (decrease) in customer deposits	<u>0</u>	<u>0</u>
 NET CASH FROM OPERATING ACTIVITIES	 \$ 21301	 32091

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

BALANCE SHEET
SEWER FUND

JUNE 30, 2004

ASSETS

Cash and Deposits, Unrestricted	\$ 3833
Accounts Receivable	
State Sources	0
Other Sources	1501
Property, Plant, and Equipment (Net of Depreciation)	<u>121336</u>
TOTAL ASSETS	\$ <u>126670</u>

LIABILITIES AND FUND EQUITY
LIABILITIES

Accounts Payable	-0-
Due to Other Funds	<u>-0-</u>
TOTAL LIABILITIES	-0-

FUND EQUITY

Retained Earnings	<u>126670</u>
TOTAL FUND EQUITY	126670

TOTAL LIABILITIES AND FUND EQUITY	\$ <u>126670</u>
------------------------------------------	-------------------------

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
SEWER FUND**

FISCAL YEAR ENDED JUNE 30, 2004
(With Comparative Totals for Fiscal Year Ended June 30, 2003)

<u>OPERATING REVENUES</u>	<u>2004</u>	<u>2003</u>
<u>CHARGES FOR SERVICES</u>		
User Fees	\$ 31313	\$ 33192
Sewer Line Fees	5400	4800
Other Revenue	<u>55</u>	<u>2112</u>
TOTAL OPERATING REVENUES	36768	40104
 <u>OPERATING EXPENSES</u>		
<u>ADMINISTRATION</u>		
Supplies	402	198
Legal and Audit	388	897
Other	0	210
Printing and Publishing	124	0
Contract Services	<u>30</u>	<u>0</u>
Total Administration	944	1305
 <u>OPERATION OF PLANT</u>		
<i>Lift Stations/Pump</i>		
Salaries and Wages	303	0
Fringe Benefits	23	0
Supplies	956	41
Insurance	1400	1400
Electricity	305	491
Equipment Rental	1528	416
Other	<u>42</u>	<u>0</u>
Total Operation of Plant	4557	2348
 <u>OPERATION OF LINES</u>		
Salaries	676	1764
Fringe Benefits	52	135
Supplies	880	9876
Equipment Rental	2585	976
Other	<u>0</u>	<u>100</u>
Total Operation of Lines	4193	12821
 <u>SEWER TREATMENT</u>		
Contract Services - West Iron County		
Sewer Authority	<u>28388</u>	<u>26281</u>
Total Sewer Treatment	\$ 28388	\$ 26281

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
SEWER FUND
(CONTINUED)

FISCAL YEAR ENDED JUNE 30, 2004
(With Comparative Totals for Fiscal year ended June 30, 2003)

<u>OPERATING EXPENSES</u> (Continued)	<u>2004</u>	<u>2003</u>
<u>OTHER EXPENSES</u>	\$	\$
Depreciation	<u>3478</u>	<u>1324</u>
Total Other Expenses	3478	1324
 TOTAL OPERATING EXPENSES	 <u>41560</u>	 <u>44079</u>
 OPERATING REVENUE (LOSS)	 (4792)	 (3975)
 <u>Non Operating Revenue</u>		
Interest Income	<u>5</u>	<u>8</u>
NET INCOME (LOSS)	(4787)	(3967)
 RETAINED EARNINGS, July 01, before restatement	 37765	 41732
Add: Cumulative Effect of a Change in Accounting Principles	<u>93692</u>	<u>0</u>
RETAINED EARNINGS, June 30, after restatement	131457	41732
RETAINED EARNINGS, JUNE 30	\$ <u>126670</u>	\$ <u>37765</u>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

**STATEMENT OF CASH FLOWS
SEWER FUND**

FISCAL YEAR ENDED JUNE 30, 2004
(With Comparative Totals for Fiscal Year Ended June 30, 2003)

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM (USED BY)		
<u>OPERATING ACTIVITIES</u>		
Net cash received from fees and services	\$ 36702	\$ 71651
Other operating revenues	55	2112
Cash payments to employees for services	(1054)	(1899)
Cash payments for goods and services	(37028)	(73964)
Other operating expenses	<u>0</u>	<u>0</u>
NET CASH FROM OPERATING ACTIVITIES	\$ (1325)	\$ (2100)
<u>NON CAPITAL AND FINANCING ACTIVITIES</u>		
Increase (decrease) in due to other funds	-0-	(643)
(Increase) decrease in due from other funds	-0-	0
Net operating transfers in (out)	<u>-0-</u>	<u>0</u>
NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	\$ -0-	\$ (643)
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and construction of capital assets	-0-	-0-
Principal payment on long-term bonds	-0-	-0-
Interest paid on long-term bonds	-0-	-0-
Interest and tax expense	-0-	-0-
Proceeds from borrowing	-0-	-0-
Contributed capital grants	<u>-0-</u>	<u>-0-</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ -0-	\$ -0-
<u>INVESTING ACTIVITIES</u>		
Interest Income	<u>5</u>	<u>8</u>
NET CASH FROM INVESTING ACTIVITIES	\$ 5	\$ 8
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1320)	(2735)
Cash and Cash Equivalents, Beginning of Year	<u>5153</u>	<u>7888</u>
Cash and Cash Equivalents, End of Year	\$ 3833	\$ 5153

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA

STATEMENT OF CASH FLOWS
SEWER FUND

FISCAL YEAR ENDED JUNE 30, 2004
(With Comparative Totals for Fiscal Year Ended June 30, 2003)

	<u>2004</u>	<u>2003</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (4792)	\$ (3975)
Adjustment to reconcile operating income to net cash provided by operating activities:		
. Depreciation	3478	1324
. Provision for uncollectible accounts	0	0
. Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(11)	33660
Increase (decrease) in accounts payable	0	(33109)
Increase (decrease) in deferred revenue	0	0
Increase (decrease) in customer deposits	<u>0</u>	<u>0</u>
 NET CASH FROM OPERATING ACTIVITIES	 \$ <u>(1325)</u>	 \$ <u>(2100)</u>

The notes to the financial statements are an integral part of this report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**
BASED ON AN AUDIT OF GENERAL PURPOSE OR BASIC FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Members of the City Council
City of Gaastra
Gaastra, Michigan 49927

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Gaastra as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

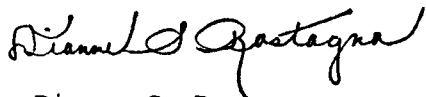
As part of obtaining reasonable assurance about whether the City of Gaastra's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which we have reported to the management of the City of Gaastra in a separate letter dated October 26, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Gaastra's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the board, administration, and federal awarding agencies and pass-through entities, and it is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Dianne S. Rostagno".

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 26, 2004

DS Rostagno, CPA, P.C.

101 West Maple Street, Iron River, MI 49935

Tel (906) 265-1040 Fax (906) 265-1042

October 26, 2004

Honorable Mayor and Members of the City Council
City of Gaastra
Gaastra, Michigan 49927

I have audited the financial statements of the **City of Gaastra** for the year ended June 30, 2004, and have issued my report thereon dated October 26, 2004. Professional standards require that I provide you with the following information related to the audit:

My Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in my engagement letter dated December 13, 2002, my responsibility, as described by professional standards, is to plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by me.

As part of the audit, I considered the internal control of the **City of Gaastra**. Such considerations were solely for the purpose of determining the audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the **City of Gaastra's** compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the **City of Gaastra** are described in the Note to the financial statements. With the exception of the implementation of GASB 34, there were no new accounting policies adopted and the application of existing policies was not changed during this year. We noted no transactions entered into by the **City of Gaastra** during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

There were no sensitive estimates affecting the financial statements as presented.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgement, may not have been detected except through my auditing procedures. These adjustments may include those proposed by me but not recorded by the **City of Gaastra** that could potentially cause future financial statements to be materially misstated, even though I have concluded that such adjustments are not material to the current financial statements. I proposed no audit adjustments that could, in my judgement, either individually or in the aggregate, have a significant effect on the **City of Gaastra's** financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of the audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors


I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the **City of Gaastra's** auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing the audit.

This information is intended solely for the use of the Board and management of the **City of Gaastra** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Dianne S. Rostagno".

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Honorable Mayor and Members of the City Council
City of Gaastra
Gaastra, MI 49927

In planning and performing the audit of the financial statements of the **City of Gaastra**, I considered the City's internal control structure to plan the auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit, I noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect my report dated October 26, 2004 on the financial statements of the **City of Gaastra**. I will review the status of these comments during my next audit engagement. My comments and recommendations, which have been discussed with appropriate City officials, are intended to improve the internal control structure or result in other operating efficiencies. I will be pleased to discuss these comments in further detail at your convenience or to assist you in implementing the recommendations. My comments are summarized as follows:

BUDGETARY

Problem

During the year ended June 30, 2004, the City incurred several expenditures which were in excess of amounts appropriated.

Recommendation

In the future, closer monitoring should be done in regards to budgetary appropriations and expenditures. It is recommended that the budget tool in the City's computer software be utilized. This will help monitor the budget on a monthly basis.

CASH RESERVES

Problem

Bond and Interest Redemption Fund

The bonding ordinance for the 2000 and 2001 Water Supply system Junior Lien Revenue Bond requires certain cash balances be reserved for the bond payment. Each quarter of the fiscal year, revenues must be transferred to the Bond and Interest Redemption Fund before any expenditures or transfers.

Sufficient amounts must be set aside to pay the principal and interest payments accruing on the bonds.

CASH RESERVES (Continued)

Problem (Continued)

Junior Lien Bond Reserve Account

The Junior Lien Bond Reserve Account is to be funded in the amount of \$441 per quarter, until there is an accumulated sum of \$17,640. Monies in the reserve account shall be used solely for payment of principal installments and interest on the bonds as to which there would otherwise be default.

In conjunction with the prior audit, it was noted that this requirement was not being met.

Recommendation

It was recommended that sufficient monies be transferred into the reserve accounts to bring the City into compliance with the bonding ordinance and that each quarter sufficient amounts need to be transferred to the Bond and Interest Redemption Fund to pay for the principal and interest payments. It was also recommended that the required amount of \$441 per quarter be transferred to the Junior Lien Bond Reserve Account until there is an accumulated amount of \$17,640 in that account.

Resolution

This has been satisfactorily resolved.

ELECTED AND APPOINTED OFFICIALS

Problem

During the prior audit, City officials were informed that elected and appointed officials are defined by statute as employees of the public entity they serve.

Because they are considered employees, they are subject to social security and Medicare withholding.

The City's elected and appointed officials were not currently being treated as employees for payroll purposes.

Recommendation

It was recommended that compensation for all elected and appointed officials be reported as payroll from which the City must withhold the mandatory social security and Medicare.

Resolution

This noncompliance remains unresolved.

Current Recommendation

The recommendation previously made should be implemented.

INTERFUND TRANSACTIONS

Problem

In conjunction with the prior audit, it was noted that payable/receivables between funds did not agree. This resulted in financial statements that were misleading and did not accurately represent the financial position and operating results of the City.

Recommendation

It was recommended that interfund receivables/payables be agreed monthly prior to the finalization of monthly financial statements.

Resolution

This has been satisfactorily resolved.

The above recommendations have been discussed with City officials.

It has been a pleasure working with the City Officials, and I wish to express my appreciation for their cooperation and assistance during the audit engagement.

Yours very truly,



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

October 26, 2004